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MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
AUDIT REPORT
JUNE 30, 2012

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
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COLLINS & BARR, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS

To the Board of Directors
Mississippi Development Bank
Jackson, Mississippi

We have audited the accompanying basic financial statements of the Mississippi Development Bank, a component unit of the State of Mississippi, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the Mississippi Development Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Mississippi Development Bank, as of June 30, 2012 and 2011, and the respective changes in financial position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2012, on our consideration of Mississippi Development Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Collins & Son, LTD.

September 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSISSIPPI DEVELOPMENT BANK

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Mississippi Development Bank's (the "Bank") audit report presents our discussion and analysis of the Bank's financial performance during the fiscal years that ended on June 30, 2012 and 2011. Please read it in conjunction with the Bank's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Bank was established as a separate body corporate and politic of the State of Mississippi (the "State") for the public purposes set forth under the provisions of Sections 31-25-1 *et seq.*, Mississippi Code of 1972, as amended (the "Act"). The purpose of the Bank is to foster and promote, in accordance with the Act, the provision of adequate markets and facilities for the borrowing of funds for public purposes by governmental units. To provide funds to accomplish this purpose, the Bank is granted under the Act the power to borrow money and issue its bonds in such principal amounts as it shall deem necessary. The Bank is not liable on any of the bonds issued by the Bank. All such indebtedness is considered conduit debt and therefore is not recorded on the Bank's financial statements.

The Bank is an independent public body and the powers conferred upon the Bank are vested in the Board of Directors of the Bank ("Board") and in no other state agency (House Bill 781, 2001 Regular Session). The Bank has been determined to be a component unit of the State.

Funds are accounting devices that state and local governments use to keep track of specific sources of funding and spending for particular purposes. Activities the government operates like businesses are accounted for in proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The proprietary fund category includes enterprise funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. All of the activities of the Bank are recorded in one enterprise fund.

GASB Statement No. 34 and related pronouncements are written from the perspective of general purpose governments – states, cities, counties, towns, and villages. However, the Bank and many governments are special purpose governments. These governments are legally separate entities and generally provide a limited set of services or programs. Special purpose governments engaged only in business-type activities should present only the financial statements required for enterprise funds under the provisions of GASB Statement No. 34 and related pronouncements.

MISSISSIPPI DEVELOPMENT BANK

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the special purpose governments described in the previous paragraph, basic financial statements consist of:

1. Statement of net assets,
2. Statement of revenues, expenses, and changes in net assets,
3. Statement of cash flows.

The financial statements also include notes to the financial statements that explain some of the information in the financial statements and provide more detailed data. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities, both financial and capital, and short-term and long-term are included in the financial statements. In addition, all revenues and expenses during the year are included in the financial statements using the accrual method of accounting, regardless of when cash is received or paid.

FINANCIAL ANALYSIS

Changes in Net Assets

Net assets increased \$1,231,159 during the year ended June 30, 2012 as compared to an increase of \$196,414 in 2011 and an increase of \$1,828,888 in 2010.

Operating revenues consist of bond issuer fees and other income. Fees earned by the Bank totaled \$195,000, \$237,500 and \$480,135 for the years ended June 30, 2012, 2011 and 2010, respectively. Fees earned depend upon the level of participation in the various finance programs provided through the Bank. The level of participation by governmental units varies from year to year and is affected by various economic factors.

Operating expenses totaled \$348,911 in 2012 as compared to \$353,786 in 2011. Operating expenses were \$230,261 for 2010. The Bank's office facilities and administrative support are provided by the Mississippi Business Finance Corporation ("MBFC"), a related party. Administrative fees charged by MBFC for these services totaled \$300,000 in 2012 and 2011. MBFC charged administrative fees of \$200,000 in 2010 for providing these services.

MISSISSIPPI DEVELOPMENT BANK

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating revenue for fiscal years 2012, 2011 and 2010 includes net earnings on investments. The net earnings for fiscal years 2012, 2011 and 2010 totaled \$74,973, \$41,700, and \$76,014 respectively. The differences between years are primarily due to fluctuations in the amounts available for investment and in the yield on the Bank's investments, including adjustments to market value in each respective year.

During 2012 and 2011, the Bank recorded nonoperating revenue of \$1,310,097 and \$271,000, respectively, related to payments received in connection with a purchase-in-lieu of redemption process provided for in the Capital Projects and Equipment Acquisition Program documents. Special obligation bonds were issued by the Bank in 2001 to fund this loan program. The program administrator was able to take advantage of current market conditions by reducing the size of the program, while at the same time realizing cash out of the transaction. Program bonds were purchased by the program administrator for less than the par amount of the bonds, and the purchased bonds were cancelled. Purchases-in-lieu will be used by this program when sufficient funds from loan principal repayments are available, when bonds are available for purchase and when the economics of the deal will produce cash.

Changes in Net Assets

	For the Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 195,000	\$ 237,500
Operating expenses	<u>348,911</u>	<u>353,786</u>
Operating income (loss)	(153,911)	(116,286)
Nonoperating revenues (expenses)	<u>1,385,070</u>	<u>312,700</u>
Change in net assets	1,231,159	196,414
Net assets, beginning of year	<u>4,043,310</u>	<u>3,846,896</u>
Net assets, end of year	<u><u>\$ 5,274,469</u></u>	<u><u>\$ 4,043,310</u></u>

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Assets

Cash and cash equivalents and investments represented over 99% of total assets at June 30, 2012, 2011 and 2010.

Property and equipment, net of accumulated depreciation, totaled \$18,397, \$29,399, and \$26,972, at June 30, 2012, 2011 and 2010, respectively.

The Bank had \$44,517 in bond escrow deposits recorded at June 30, 2012 and no liabilities in 2011 or 2010.

Net assets of the Bank totaled \$5,274,469 at June 30, 2012 as compared to \$4,043,310 at June 30, 2011 and \$3,846,896 at June 30, 2010.

	Net Assets	
	As of June 30,	
	2012	2011
Current assets	\$ 5,300,589	\$ 4,013,911
Noncurrent assets	18,397	29,399
Total assets	5,318,986	4,043,310
Current liabilities	44,517	-
Total liabilities	44,517	-
Net assets:		
Invested in capital assets	18,397	29,399
Unrestricted	5,256,072	4,013,911
Total net assets	\$ 5,274,469	\$ 4,043,310

BASIC FINANCIAL STATEMENTS

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,390,670	\$ 665,912
Investments	3,897,882	3,335,859
Interest receivable	<u>12,037</u>	<u>12,140</u>
Total current assets	5,300,589	4,013,911
Capital assets:		
Property and equipment, net	<u>18,397</u>	<u>29,399</u>
Total assets	<u>5,318,986</u>	<u>4,043,310</u>
LIABILITIES		
Current liabilities:		
Bond escrow deposits	<u>44,517</u>	<u>-</u>
Total liabilities	<u>44,517</u>	<u>-</u>
NET ASSETS		
Invested in capital assets	18,397	29,399
Unrestricted	<u>5,256,072</u>	<u>4,013,911</u>
Total net assets	<u>\$ 5,274,469</u>	<u>\$ 4,043,310</u>

The notes to the financial statements are an integral part of these statements.

MISSISSIPPI DEVELOPMENT BANK
 A Component Unit of the State of Mississippi
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Issuer fees	\$ 195,000	\$ 237,500
	<u>195,000</u>	<u>237,500</u>
OPERATING EXPENSES:		
Administrative fees	300,000	300,000
Contractual services	29,700	34,507
Depreciation	11,568	8,940
Other	7,643	10,339
	<u>348,911</u>	<u>353,786</u>
Total operating expenses	<u>348,911</u>	<u>353,786</u>
Operating income (loss)	<u>(153,911)</u>	<u>(116,286)</u>
NONOPERATING REVENUES (EXPENSES):		
Net earnings on investments	74,973	41,700
Gain on cancellation of program bonds	1,310,097	271,000
	<u>1,385,070</u>	<u>312,700</u>
Total nonoperating revenues (expenses)	<u>1,385,070</u>	<u>312,700</u>
Change in net assets	1,231,159	196,414
NET ASSETS, BEGINNING OF YEAR	<u>4,043,310</u>	<u>3,846,896</u>
NET ASSETS, END OF YEAR	<u>\$ 5,274,469</u>	<u>\$ 4,043,310</u>

The notes to the financial statements are an integral part of these statements.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 195,000	\$ 237,500
Bond escrow deposits	44,517	-
Administrative fees paid to related party	(300,000)	(300,000)
Cash payments to suppliers for goods and services	<u>(37,343)</u>	<u>(44,846)</u>
Net cash used by operating activities	<u>(97,826)</u>	<u>(107,346)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from cancellation of program bonds	<u>1,310,097</u>	<u>271,000</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Net earnings on investments	63,406	52,245
Proceeds from sale of investments	2,240,417	2,473,919
Purchases of investments	(2,790,770)	(3,123,396)
Purchases of capital assets	<u>(566)</u>	<u>(11,367)</u>
Net cash used by investing activities	<u>(487,513)</u>	<u>(608,599)</u>
 Net increase (decrease) in cash and cash equivalents	724,758	(444,945)
Cash and cash equivalents, beginning of year	<u>665,912</u>	<u>1,110,857</u>
 Cash and cash equivalents, end of year	<u>\$ 1,390,670</u>	<u>\$ 665,912</u>
 Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	\$ (153,911)	\$ (116,286)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	11,568	8,940
Increase in bond escrow deposits	<u>44,517</u>	<u>-</u>
Net cash used by operating activities	<u>\$ (97,826)</u>	<u>\$ (107,346)</u>

The notes to the financial statements are an integral part of these statements.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Mississippi Development Bank (the "Bank"), which have been followed in preparing the accompanying financial statements, are set forth below. The Bank's fiscal year runs annually from July 1st to June 30th of the following year.

Organization

The Mississippi Development Bank was established as a separate body corporate and politic of the State of Mississippi (the "State") for the public purposes set forth under the provisions of Sections 31-25-1 *et seq.*, Mississippi Code of 1972, as amended (the "Act"). The purpose of the Bank is to foster and promote, in accordance with the Act, the provision of adequate markets and facilities for the borrowing of funds for public purposes by governmental units. To provide funds to accomplish this purpose the Bank is granted under the Act the power to borrow money and issue its bonds in such principal amounts as it shall deem necessary. The Bank is not liable on any of the bonds issued by the Bank. Therefore, all such indebtedness is considered conduit debt as further discussed in Note 6.

The Bank is not an agency of the State. The Bank operates independently and is separate from the State in its corporate and sovereign capacity and has no taxing power. The Bank has been determined to be a component unit of the State. In the event of dissolution, all rights and properties shall pass to and be vested in the State.

Capital Assets

Purchased or constructed capital assets are stated at cost and include expenditures for new additions and those which substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor replacements are expensed as incurred. The cost of equipment is depreciated on a straight-line basis over an estimated useful life of five years for each asset. Depreciation expense for the years ended June 30, 2012 and 2011 was \$11,568 and \$8,940 respectively.

Revenue Recognition

All revenue of the Bank is derived from bond issuance fees and earnings on investments. Bond issuance fees related to the Bank's programs are recognized when bonds are sold. Revenue transactions are classified as operating revenue if those transactions constitute the Bank's principal ongoing operations.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

Operating Expenses

Bond issuance costs are paid by the local governmental units from bond proceeds. The Bank's office facilities and administrative support are provided by Mississippi Business Finance Corporation ("MBFC"), a related party (see Note 5). Expense transactions are classified as operating expenses if those transactions constitute the Bank's principal ongoing operations.

Note 2 – Cash, Cash Equivalents and Investments

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the insurance corporations.

The Bank considers certificates of deposit to be cash equivalents if they have a maturity of three months or less when acquired. Certificates of deposit with maturities in excess of three months are considered investments.

Custodial credit risk is the risk that in the event of the failure of a financial institution, the Bank will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Bank does not have a formal policy for custodial credit risk. The Mississippi State Treasurer manages that risk on behalf of the Bank. The carrying amount of the Bank's deposits with financial institutions was \$1,390,670 for 2012 and \$665,912 for 2011. The bank balance was \$1,390,670 for 2012 and \$665,912 for 2011. At June 30, 2012 and 2011, none of the bank balances were exposed to custodial credit risk.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 2 – Cash, Cash Equivalents and Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank has a policy regarding investment maturity. Investments should be primarily with maturities of five years or less. United States government and agency obligations and guaranteed investment contracts may be considered for maturities greater than five years. Investments with maturities of greater than five years require approval by the Bank's investment committee.

Investments made by the Bank that are included on the statements of net assets are summarized below as of June 30, 2012 and 2011.

Investment Type	2012 at Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	5-10
Government agency bonds	\$ 1,541,357	\$ 974,626	\$ 504,928	\$ 61,803
Certificates of deposit	147,933	147,933	-	-
Municipal obligations	102,773	-	-	102,773
Corporate bonds	583,790	-	583,790	-
Mortgage-backed securities	1,522,029	-	1,213,063	308,966
Total	\$ 3,897,882	\$ 1,122,559	\$ 2,301,781	\$ 473,542

Investment Type	2011 at Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	5-10
Government agency bonds	\$ 1,630,557	\$ 1,159,782	\$ 154,252	\$ 316,523
Certificates of deposit	147,675	147,675	-	-
Municipal obligations	96,954	-	-	96,954
Corporate bonds	648,448	251,477	396,971	-
Mortgage-backed securities	812,225	-	812,225	-
Total	\$ 3,335,859	\$ 1,558,934	\$ 1,363,448	\$ 413,477

Investments are carried at fair value for June 30, 2012 and 2011.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 2 – Cash, Cash Equivalents and Investments (Continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Bank's investments in debt securities at June 30, 2012 and 2011 are summarized by Standard & Poor's credit quality rating as follows:

<u>S&P Rating</u>	<u>2012</u>	<u>2011</u>
AAA	\$ 42,589	\$ 45,820
AA+	1,677,726	1,018,965
AA-	-	99,104
A+	-	202,131
A	201,257	94,654
A-	89,085	-
Not rated - investment grade (1)	<u>197,935</u>	<u>96,953</u>
Total	<u>\$ 2,208,592</u>	<u>\$ 1,557,627</u>

(1) Investment grade rated by agency other than Standard & Poor.

The Bank's investments in government agency bonds and certificates of deposit are not considered to have credit risk and are not included in the disclosure of credit quality. The Bank's investment policy requires investments in obligations of insurance firms or other corporations be rated "AA", or its equivalent, or better by recognized rating companies at the time of purchase.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 2 – Cash, Cash Equivalents and Investments (Continued)

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Bank, and are held by either the counterparty or the counterparty's trust department or agent but not in the Bank's name. The Bank does not have any investment securities at June 30, 2012 and 2011 that are exposed to custodial credit risk.

Excluding government agency bonds, certificates of deposit, investments in mutual funds and other pooled investments, the Bank has the following investments in any one issuer that represent five percent or more of total investments at June 30, 2012 and 2011.

<u>Description</u>	<u>2012</u>	<u>2011</u>
JP Morgan Chase, 1.65%, due 09/30/13	\$ 201,257	\$ 202,131
General Electric Corporation, 2.15%, due 01-09-15	198,286	-
FHLB Y2-2015 1, 2.60%, due 04/20/15	123,538	173,680
FNMA Pass-Thru Pool #AE7758, 3.50%, due 11/01/25	<u>194,577</u>	<u>243,603</u>
	<u>\$ 717,658</u>	<u>\$ 619,414</u>

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 3 – Capital Assets

The changes in capital assets for the years ended June 30, 2012 and 2011 are summarized as follows:

	July 1, 2011 Beginning Balance	Increases	Decreases	June 30, 2012 Ending Balance
Capital assets-				
Property & Equipment	\$ 78,895	\$ 566	\$ -	\$ 79,461
Accumulated Depreciation-				
Property & Equipment	(49,496)	(11,568)	-	(61,064)
Capital assets, net	<u>\$ 29,399</u>	<u>\$ (11,002)</u>	<u>\$ -</u>	<u>\$ 18,397</u>
	July 1, 2010 Beginning Balance	Increases	Decreases	June 30, 2011 Ending Balance
Capital assets-				
Property & Equipment	\$ 67,528	\$ 11,367	\$ -	\$ 78,895
Accumulated Depreciation-				
Property & Equipment	(40,556)	(8,940)	-	(49,496)
Capital assets, net	<u>\$ 26,972</u>	<u>\$ 2,427</u>	<u>\$ -</u>	<u>\$ 29,399</u>

Note 4 – Cancellation of Program Bonds

The Bank issued special obligation bonds in March 2001 to fund a loan program known as the Capital Projects and Equipment Acquisition Program ("2001 Pool Program"). This program is and has been used to fund public projects for qualified governmental entities. During the year, the program administrator was able to take advantage of current market conditions by reducing the size of the program through a purchase-in-lieu of redemption process provided for in the 2001 Pool Program documents, while at the same time realizing cash out of the transaction. The Bank received \$1,310,097 and \$271,000 for purchase-in-lieu transactions completed during the years ended June 30, 2012 and 2011, respectively.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 4 – Cancellation of Program Bonds (Continued)

Program bonds were purchased by the program administrator for less than the par amount of the bonds, and the purchased bonds were cancelled. Funds for a purchase-in-lieu transaction come from the recycling account established within the 2001 Pool Program. New loans through the 2001 Pool Program are also funded through the recycling account. The recycling account is funded through principal repayment of loans. Purchases-in-lieu are done 1) when funds are available in the recycling account, 2) when bonds are available for purchase, and 3) when the economics of the deal will produce cash.

Note 5 – Related Party

MBFC is a not-for-profit public corporation that administers a variety of finance programs designed to assist business and industry in locating or expanding in the State. MBFC is a component unit of the State. MBFC's members are appointed by various state elected officials. MBFC's Board of Directors are elected by its members. By statute, the Board of Directors of MBFC serve as the Board of Directors of the Bank. Also, the officers of MBFC serve as officers of the Bank in accordance with the Bank's by-laws.

The Bank's office facilities and administrative support are provided by MBFC. Administrative fees charged by MBFC for 2012 and 2011 were \$300,000.

Note 6 – Conduit Debt Transactions

The Bank assists governmental units through programs of providing loans under loan agreements between such governmental units and the Bank. The Bank issues special obligation bonds in order to provide funds for making loans to the governmental units. Although the special obligation bonds bear the name of the Bank, the Bank is not responsible for the payment of the bonds. The bonds are secured only by the payments agreed to be paid by the governmental units under the terms of the loan agreements.

The outstanding balance of special obligation bonds issued by the Bank was approximately \$3.22 billion at June 30, 2012 and approximately \$3.45 billion at June 30, 2011. The faith, credit and taxing power of the State and the Bank are not pledged to the payment of such bonds. However, the moral obligation of the State has been pledged on approximately \$929 million of the bonds outstanding as of June 30, 2012.

Note 7 – Risk Management

The Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Bank carries commercial insurance for these risks. There have been no settled claims resulting from these insured risks in any of the past three fiscal years.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 8 – Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Bank through September 17, 2012, (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

INTERNAL CONTROL AND COMPLIANCE REPORT



COLLINS & BARR, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Mississippi Development Bank
Jackson, Mississippi

We have audited the basic financial statements of Mississippi Development Bank (the "Bank"), as of and for the year ended June 30, 2012, and have issued our report thereon dated September 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Bank, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Bank's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and the Mississippi Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Collins & Bon, LTD.

September 17, 2012